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Pakistan

Sugar

Annual

2004

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Report Highlights:

Pakistan's MY 2004/05 sugar production is forecast to decrease to 3.66 million metric tons (raw value) as a result of a corresponding decrease in planted area. Due to declining returns, farmers are switching to other short season high value crops. To off-load rising stocks the sugar industry views exports as the solution. This will be possible only if the Government provides an export subsidy, of US \$ 120-130 per metric ton.

Includes PSD Changes: Yes

Includes Trade Matrix: No

Annual Report

Islamabad [PK1]

[PK]

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Executive Summary

Pakistan's agriculture sector has recovered from a prolonged drought. As a result, sugarcane yield levels and sucrose recovery is expected to improve. Last year's good monsoon season coupled with about 30 percent higher runoff from glacial and snow melt are the primary reasons for the improved water supplies available for agricultural use. Since completion of the national irrigation system in the 1970's, demand for water has increased more than 50 percent while storage capacity has decreased by one-third due to silting, leaving per capita availability at a fraction of its original level. As a result, shortfalls in water supplies are expected to play an increasingly important role in agriculture's ability to meet future domestic requirements. In addition to the need to increase storage capacity and to adopt new irrigation technology, many observers believe Pakistan needs to alter cropping patterns significantly. To conserve water resources that are becoming scarcer by the year, producers will need to shift production away from water-intensive crops such as sugar cane and rice to other crops.

MY 2004/05 sugarcane area is forecast to decrease about 10 percent due mainly to:

(i) decreasing financial returns with the last cane crop (30 percent reduction in offered cane price), coupled with marketing problems/delayed payments to cane growers from sugar mills, (ii) increasing financial returns from alternative crops, and (iii) increasing costs for production inputs particularly, fertilizers, electricity and diesel.

SUGARCANE

Production

MY 2004/05 sugarcane production is forecast at 47 million metric tons (MMT), a decline of 10 percent from the previous year resulting mainly to decreased acreage planted. Cane growers shifted acreage to select other crops because of: (a) problems faced in the disposal of cane, particularly due to late start of the crushing season by the sugar industry, (b) a lower economic return for cane due to delayed payments and a 30 percent lower price offered by sugar mills compared to previous years, (c) improvement in profit margins in competing short season crops like cotton, sunflower, corn and vegetables. Under political pressure by the sugar industry provincial governments lowered the official 2003/04 cane purchase price for 40 Kilogram by two rupees (Rs) to Rs. 41 for Sindh province and Rs. 40 for Punjab and NWFP as compared to last season. Reports from the cane growing areas of Punjab and Sindh province are that farmers are receiving Rs. 30 - 35 cash per 40 kilograms of cane from middlemen. Greater water supplies and expected normal monsoon rains should result in improved yield and sucrose levels with the 2004/05 sugarcane crop.

MY 2003/04 sugarcane production is estimated at 52 MMT despite an estimated 5 percent decrease in planted area. Higher yields are the basis for such optimism. Recent field surveys in principal sugarcane growing areas in the Punjab and Sindh Provinces revealed crop conditions/growth much better as compared to the previous year due to greater availability of water for irrigation and the return of normal monsoon season that by-passed the country the past few years.

Table 1: Sugarcane Area and Production by Province

Province	Area ('000' hectares)			Production ('000' MT)		
	MY 2002/03	MY 2003/04	MY 2004/05	MY 2002/03	MY 2003/04	MY 2004/05
Punjab	735.0	685.00	610.00	33,168	33,000	29,500
Sindh	259.0	260.00	230.00	13,798	14,000	12,500
NWFP	105.0	104.00	104.00	5,049	5,000	5,000
Baluch	0.8	0.7	0.7	41	40	38
Total	1,099.8	1,049.7	944.7	52,056	52,040	47,038

Source: Ministry of Food and Agriculture and FAS/Islamabad

Production Policy

The Government of Pakistan (GOP) encourages cane production via a market support price announced prior to planting. The support price, though well above the world price, is set below the local domestic market price. As a result, the government generally does not procure cane. During the MY 2003/04, the Federal Government authorized the respective provincial governments to fix the cane price in consultation with the representatives of the sugar industry and farmer organizations. As a result of earlier discussions, MY 2003/04 cane prices were reduced by two rupees to Rs. 40 per 40-kilograms for Punjab and NWFP and Rs. 41 per 40-kilograms for Sindh, both adjusted for sugar recovery levels (Rs. 57.75 = US\$1). The sugar industry has been facing rising stocks of sugar, and now finds itself unable to pay farmers for the cane purchased. The sugar industry has requested the GOP purchase at least 500,000 MT of surplus sugar from the market through the Trading Corporation of Pakistan (TCP) for export. The GOP has constituted a high level committee to suggest long term policy measures to resolve the problems of the sugar industry and the cane growers on permanent basis.

SUGAR

Production

My 2004/05 refined sugar production is forecast to decrease 10 percent to 3.66 MMT (raw value) due mainly to a decrease in cane plantings. Although, sugarcane yields and sugar recovery is expected to increase because of expected better irrigation supplies, monsoon rains and planting of higher sucrose content varieties of sugarcane.

MY 2003/04 refined sugar production is estimated at 4.05 million metric tons (raw value) in response to a higher sucrose recovery rate from the cane processed. In recent years sugar mills have worked with producers to introduce sugarcane varieties that produce higher levels of sucrose. These varieties are starting to come on-line now in the Punjab and Sindh provinces. Some cane in the NWFP is expected to divert to 'Gur' production to meet demand for that product emanating from Afghanistan.

Table 2. Refined Sugar Production, Supply and Demand

Commodity	Centrifugal Sugar		(1000 MT)			
	2003 USDA	Revised Estimate	2004 USDA	Revised Estimate	2005 USDA	Post Forecast
Market Year Begin	10/2002		10/2003		10/2004	
Beginning Stocks	460	460	797	797	0	1030
Beet Sugar Production	24	24	24	24	0	24
Cane Sugar Production	3920	3920	4013	4023	0	3638
TOTAL Sugar Production	3944	3944	4037	4047	0	3662
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	4404	4404	4834	4844	0	4692
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	107	107	324	214	0	214
TOTAL EXPORTS	107	107	324	214	0	214
Human Dom. Consumption	3500	3500	3550	3600	0	3650
Other Disappearance	0	0	0	0	0	0
Total Disappearance	3607	3607	3874	3814	0	3864
Ending Stocks	797	797	960	1030	0	828
TOTAL DISTRIBUTION	4404	4404	4834	4844	0	4692

Consumption

MY 2004/05 sugar consumption is forecast to increase to 3.65 MMT due mainly to an increase in population. Retail sugar prices hover around Rs. 19-20 per kilogram as stocks remain readily available. It is broadly understood in the community that the GOP would like to see retail prices maintained in the Rs. 20 or lower per kilogram.

Trade

MY 2004/05 sugar exports (raw basis) are forecast at 214,000 MT. This level is subject to the GOP decision to provide a subsidy of up to US \$ 120-130 per metric ton on exports by the TCP. In absence of such a subsidy it will be very difficult for the TCP to export sugar on competitive prices in the international market.

MY 2003/04 sugar exports are estimated at 214,000 MT. In January 2004 the GOP authorized the TCP to procure 200,000 MT of sugar from the industry to facilitate payments to cane growers. This sugar has been sitting in stores of the sugar industry thus placing downward pressure on sugar retail prices. TCP is facing difficulty in exporting this sugar because of higher domestic costs and no financial support yet by the GOP. The high level committee commissioned by the GOP to review the surplus sugar situation, recommended an additional 300,000 MT of sugar be procured from the industry this year. Retail sugar prices which at the start of the crushing season were Rs. 20 per kilograms are now at Rs. 18-19 per kilogram while industry stocks continue to accumulate.

During June 2003 the GOP imposed on imported refined sugar a 25 percent duty and 15 percent sales tax. Mill owners' view this levy as necessary to 'protect' the local industry, which's cost of production for refined sugar makes it uncompetitive with imported counterpart.

Stocks

MY 2004/05 stocks are forecast at 828,000 MT given projected supply-demand scenarios and trade expectations. The sugar industry is of the view that GOP may provide a subsidy of US \$ 120 to 130 per MT to TCP on sugar exports to off load their rising stocks.